

*[Provisional Translation Only]*

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Issuer

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**Hotel Acquisition (Court Hotel Kurashiki)**

Ichigo Investment Advisors (“IIA”), the asset management company of Ichigo Hotel, decided today to acquire the Court Hotel Kurashiki in Okayama Prefecture, located along Japan’s Inland Sea between Osaka and Hiroshima. The Court Hotel Kurashiki has strong growth potential due to increasing inbound tourism and robust domestic business demand.

We would like to express our deepest condolences to all those affected by last month’s heavy rainfall in western Japan and our wishes for the earliest possible recovery. Fortunately, the city center of Kurashiki, where the Court Hotel Kurashiki is located, suffered no building or infrastructure damage, and the hotel’s occupancy is robust, with July occupancy at 96.4%.

1. Acquisition Summary

Hotel Name	Court Hotel Kurashiki
Hotel No. <sup>1</sup>	F-4 022
Hotel Type	Stay-Only
Date Built	March 1993
Form of Ownership	Trust beneficiary interest in real estate ( <i>juekiken</i> )
Appraisal Value <sup>2</sup>	JPY 1,960,000,000
Acquisition Price <sup>3</sup>	JPY 1,725,000,000
Seller	Nishi Nihon Holdings GK (Please see “Seller Profile” in Section 4.)
Contract Date	August 24, 2018
Closing Date	August 31, 2018
Financing Method	Cash-on-hand
Settlement Method	Lump-sum payment

<sup>1</sup> The initial letter “F” is Ichigo Hotel’s regional code for where the hotel is located, in this case the Chugoku/Shikoku region in western Japan. Please see pp. 10 – 11 for regional code details.

<sup>2</sup> Appraisal value is as of August 1, 2018.

<sup>3</sup> Acquisition price excludes incidental expenses such as property, city planning, and consumption taxes.

## 2. Acquisition Rationale

Through the acquisition of the Court Hotel Kurashiki, a hotel with an NOI (Net Operating Income) yield of 6.9% (appraisal basis) and strong growth potential, Ichigo Hotel continues to execute on its strategy to grow earnings and dividends for its shareholders. The acquisition is being financed by reinvesting part of the proceeds from the August sale of the Smile Hotel Asakusa.<sup>1</sup> (JPY 690 million in profits from that sale will also be paid out as dividends to Ichigo Hotel shareholders in the current January 2019 fiscal period.)

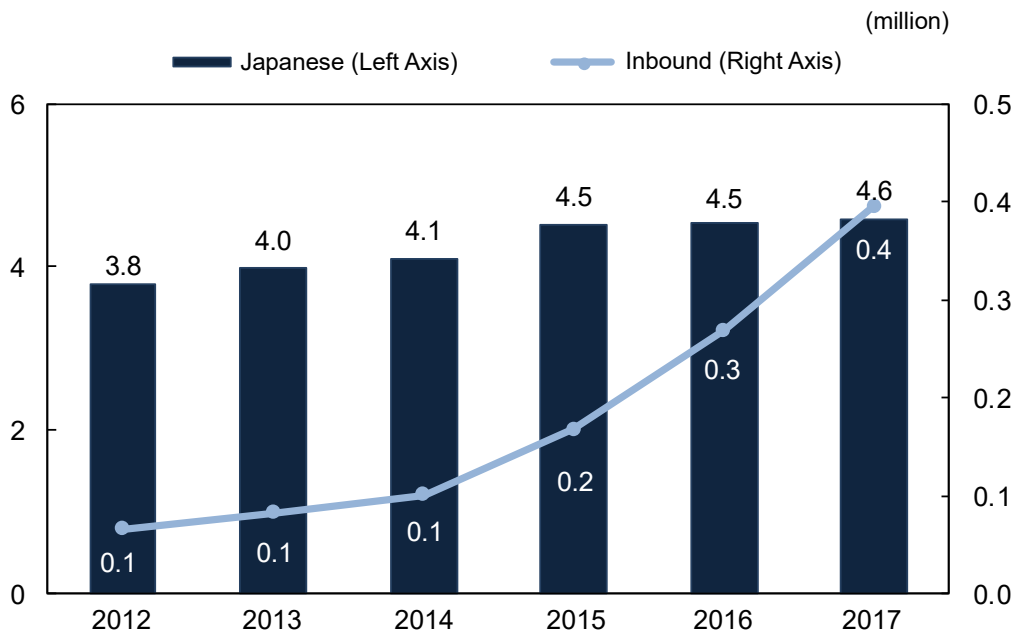
The Court Hotel Kurashiki is conveniently located an eight-minute walk from JR Kurashiki train station and just a two-minute walk from the Kurashiki Bikan Historical Quarter, a popular tourist destination with historical Edo-period buildings. As shown in the graph below, 3.85 million tourists visited the Kurashiki Bikan Historical Quarter in 2016, with inbound visitors growing 10% annually. In addition, Kurashiki’s Mizushima Coastal Industrial Complex, one of the nation’s biggest industrial areas, generates robust business demand for hotels.

The Court Hotel Kurashiki is being acquired from Ichigo Hotel’s sponsor, Ichigo (2337). The hotel’s operator, The COURT, operates 16 hotels across Japan, including Ichigo Hotel’s Valie Hotel Tenjin, and the hotel’s variable rent lease is expected to drive earnings upside from growing inbound tourism.

Ichigo Hotel has confirmed the appropriateness of the Court Hotel Kurashiki’s acquisition price, which is 12% below the hotel’s third-party appraisal value despite Japan’s strong real estate market. In particular, given that this is a related party transaction as specified in IIA’s rules, Ichigo Hotel fully implemented its related party transaction procedures, including getting a third-party appraisal on the hotel and cross-checking the third-party appraisal with an additional third-party second opinion appraisal.

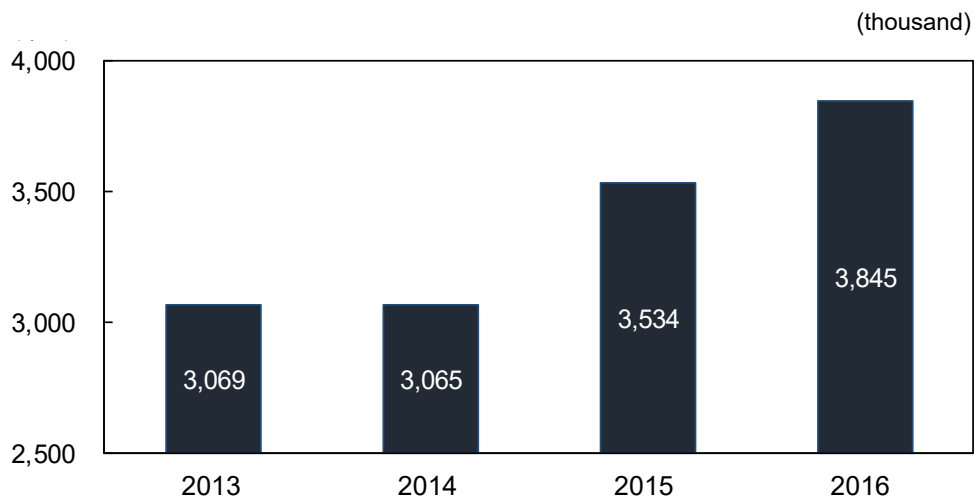
<sup>1</sup> For details of the sale, please refer to the April 20, 2018 release “Hotel Sale (Smile Hotel Asakusa)” and the August 1, 2018 release “Completion of Hotel Sale (Smile Hotel Asakusa).”

### Number of Hotel Guests in Okayama Prefecture



Note: Data prepared by IIA based on the Japan Tourism Agency’s “Statistical Survey of Travelers,” 2012 – 2017.

### Number of Tourists Visiting the Kurashiki Bikan Historical Quarter



Note: Data prepared by IIA based on Kurashiki City’s “Kurashiki City Tourism Statistical Report 2016.”

### 3. Description and Location of the Court Hotel Kurashiki

The Court Hotel Kurashiki caters to both business and tourism demand. It is located a two-minute walk from the Kurashiki Bikan Historical Quarter, a popular tourist destination, and also offers convenient access to the Mizushima Coastal Industrial Zone, one of Japan's biggest industrial areas.

The hotel has 104 guest rooms with double or twin beds and an average size of 23m<sup>2</sup>. Twin-bed rooms make up about 70% of total guest rooms to flexibly accommodate the diverse needs of travelers.



Hotel Details						
Legal Form of Asset		Trust beneficiary interest in real estate ( <i>juekiken</i> )				
Trustee		Mizuho Trust & Banking Co., Ltd.				
Period of Trust Contract		November 9, 2005 – August 31, 2028 (Expected)				
Location		2-2-26 Chuo, Kurashiki City, Okayama				
Land	Property Right	Freehold				
	Area	1,031.57m <sup>2</sup>				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 400%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure <sup>1</sup>	Reinforced Concrete, 8 Floors				
	Total Floor Area	3,964.19m <sup>2</sup>				
	Date Built	March 12, 1993				
Appraiser		Tanizawa Sogo Appraisal Co., Ltd.				
Appraisal Value		JPY 1,960,000,000				
Appraisal Date		August 1, 2018				
Value by Direct Capitalization Method		JPY 1,970,000,000				
Number of Guest Rooms		104				
Architect <sup>2</sup>		Kajima Corporation, Hiroshima Branch, First-Class Registered Architects Office				
Builder <sup>2</sup>		Kajima Corporation, Hiroshima Branch				
Structural Designer <sup>2</sup>		Kajima Corporation, Hiroshima Branch, First-Class Registered Architects Office				
Inspection Agency <sup>2</sup>		Kurashiki City				
PML (Assessor)		6.54% (Sompo Risk Management & Health Care Inc.)				
Collateral		None				
Lease Details						
Tenant Overview						
Number of Tenants		1				
Rental Income		Minimum Guaranteed Rent: JPY 64,679,234 p.a. Variable Rent: Monthly GOP (Gross Operating Profit) – (Monthly Minimum Guaranteed Rent + Percentage of Monthly GOP)				
Deposit		None				
Leasable Area		3,964.19m <sup>2</sup>				
Leased Area		3,964.19m <sup>2</sup>				
Occupancy		March 2018	April 2018	May 2018	June 2018	July 2018
		100%	100%	100%	100%	100%
Property Management Company		Uniho Co., Ltd.				
Master Lease Company		Ichigo Hotel REIT Investment Corporation				

Master Lease Type	Pass-through
Appraisal NOI Yield <sup>3</sup>	6.9%
Post-Depreciation NOI Yield <sup>4</sup>	5.6%
<b>Special Items</b>	
<ol style="list-style-type: none"> <li>1. An engineering report indicates that the emergency exit light above the eighth floor exit leading to the outdoor stairs is defective. The seller has agreed to rectify the issue at the seller's expense by the Acquisition Date.</li> <li>2. An inspection found problems in the automatic fire alarm system's sensors and an emergency exit light. The seller has agreed to rectify these issues at the seller's expense by the Acquisition Date.</li> </ol>	

<sup>1</sup> Building Structure refers to the structure described in the real estate registry.

<sup>2</sup> Names of the architect, builder, structural designer, and inspection agency are those as of when the building was built.

<sup>3</sup> Appraisal NOI Yield = Appraisal NOI (Net Operating Income) in the real estate appraisal report divided by the Acquisition Price. This figure is independently calculated by IIA based upon the above data and is therefore not in the real estate appraisal report itself.

<sup>4</sup> Post-Depreciation NOI Yield = Appraisal NOI in the real estate appraisal report minus Depreciation, divided by the Acquisition Price. Depreciation is independently calculated by IIA using the straight-line method, and the Post-Depreciation NOI Yield is calculated by IIA based upon the above data and are therefore not in the real estate appraisal report itself.

Appraisal Details		
Hotel Name	Court Hotel Kurashiki	
Appraisal Value	JPY 1,960,000,000	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	August 1, 2018	
	Amount	Note
Appraisal Value	JPY 1,960,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation and DCF valuation
Value by Direct Capitalization Method	JPY 1,970,000,000	
Income	JPY 135,000,000	
Maximum Obtainable Rental Income	JPY 135,000,000	
Vacancy Loss	–	
Expenses	JPY 15,999,470	
Administrative and Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	JPY 6,500,000	Based on the average of the past 12 years of engineering reports
PM Fee	JPY 1,200,000	Based on estimates and JPY 100,000 per month
Leasing Brokerage Fees	–	
Taxes	JPY 7,952,500	Based on FY2018 actual amounts (including depreciable asset tax)
Insurance Premiums	JPY 211,970	Based on insurance estimates
Other Expenses	JPY 135,000	0.1% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	JPY 119,000,530	
Income on Investment of Deposits Received	–	
Capital Expenditure	JPY 18,620,000	Based on average renewal expense of the past 12 years in engineering reports
Net Profit	JPY 100,380,530	
Cap Rate	5.1%	Based on transactions of similar assets and comprehensive assessment of the asset's location, its individual characteristics, property right, as well as recent decline of hotel cap rates
Value via DCF Method	JPY 1,950,000,000	

	Discount Rate	5.2%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
	Terminal Cap Rate	5.3%	Based upon risk-adjusted NOI
	Value via Cost Approach	JPY 1,790,000,000	
	Land	70.1%	
	Building	29.9%	Sum of building and Furniture, Fixtures, & Equipment (FF&E) values divided by sum of building, FF&E, and land values
<b>Notes</b>			
None			

#### 4. Seller Profile

Name	Nishi Nihon Holdings GK
Address	1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo
Representative	Ippan Shadan Hojin VSL, Representative Employee Hiroshi Sasaki, Representative Director
Principal Businesses	Ownership and buy/sell of trust beneficiary interest in real estate ( <i>juekiken</i> ) Ownership, management, and buy/sell of real estate
Capital	JPY 100,000
Establishment Date	October 23, 2015
Relationship with Ichigo Hotel or IIA <sup>1</sup>	Although the seller is not a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law, it is a related party as defined in IIA's internal rules given that Ichigo, IIA's 100% shareholder, is a silent partner and the seller receives asset management advice from Ichigo Estate, a related party.

<sup>1</sup> Because Nishi Nihon Holdings GK is a related party as specified in IIA's internal rules, Ichigo Hotel fully implemented its related party transaction procedures, including getting a third-party appraisal on the hotel and cross-checking the third-party appraisal with an additional third-party second opinion appraisal.

#### 5. Ownership History

Asset Name	Court Hotel Kurashiki	
Overview	Current Owner	Previous Owner
Name	Nishi Nihon Holdings GK	Unrelated Party
Relationship to Ichigo Hotel	Related Party as defined in the internal rules of IRE. Please see "Seller Profile" in Section 4.	—
Acquisition Rationale	Investment	—
Acquisition Price <sup>1</sup>	Omitted as ownership exceeds one year	—
Acquisition Date	December 2016	—



## 6. Broker Profile

N/A

## 7. Acquisition Schedule

Contract Date	August 24, 2018
Acquisition and Settlement Date	August 31, 2018 (Expected)

## 8. Earnings Outlook

The acquisition of the Court Hotel Kurashiki is forecast to increase Ichigo Hotel's January 2019 NOI and EPS by JPY 37 million and JPY 66, respectively. However, Ichigo Hotel is not currently revising its existing earnings forecast announced on April 20, 2018. Should an earnings forecast revision become necessary, Ichigo Hotel will promptly disclose the details.

#### Appendix A: Engineering Report Summary

Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	July 2018
Short-Term Repair Expenses <sup>1</sup>	–
Long-Term Repair Expenses <sup>2</sup>	JPY 207,553,000
Current Replacement Cost	JPY 999,200,000

<sup>1</sup> Short-Term Repair Expenses are defined as repair expenses considered necessary beyond the scope of ordinary maintenance within a year from the time of inspection.

<sup>2</sup> Long-Term Repair Expenses are defined as cumulative repair expenses considered necessary for the maintenance of the hotel within twelve years from the time of inspection.

Appendix B: Post-Acquisition Portfolio

Hotel No. <sup>1</sup>	Hotel Name	Prefecture	Lease Terms	Acquisition Price <sup>2</sup> (JPY million)	% of Portfolio <sup>3</sup>
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable Rent	2,160	4.3
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.9
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	2.9
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	7.7
C-3 016	Hotel Livemax Nihombashi- Hakozaki	Tokyo	Fixed Rent	1,360	2.7
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	3.1
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	5.3
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	10.5
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	8.8
E-2 002	Hotel Vista Premio Kyoto	Kyoto	Variable Rent	3,600	7.1
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.2
E-4 007	Hotel Suave Kobe Asuta	Hyogo	Fixed Rent <sup>4</sup>	1,490	2.9
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	15.0
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.4
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.2
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.5
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.4
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.7
G-2 013	Nest Hotel Naha	Okinawa	Variable Rent	3,750	7.4
Total 21 Hotels				50,763	100.0

<sup>1</sup> The initial letter (A, B, etc.) is a regional code which identifies the area in which the hotel is located.

Code	Region	Prefectures
A	Hokkaido/Tohoku	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
B	Kanto	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Yamanashi, Nagano, Niigata
C	Tokyo	Tokyo
D	Hokuriku/Tokai	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, Mie
E	Kinki	Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama
F	Chugoku/Shikoku	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Kagawa, Tokushima, Kochi, Ehime
G	Kyushu/Okinawa	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa

- <sup>2</sup> Acquisition Price is the price as indicated in the purchase and sales agreement for the hotel (excluding fees and incidental expenses such as property, city planning, and consumption taxes).
- <sup>3</sup> % of Portfolio is the Acquisition Price of each hotel as a percentage of the Total Acquisition Price for the portfolio, rounded to the nearest tenth.
- <sup>4</sup> While the Hotel Suave Kobe Asuta's lease contract includes a variable rent clause, it has never been triggered. Because Ichigo Hotel does not anticipate receiving variable rent at this hotel, it has been classified as a fixed rent hotel.